

THE BUSINESS DEVELOPMENT PROGRAM

The Business Development Program (BDP) was established as an emergency lending program in 1996 via a grant agreement between the U.S. and Bosnia-Herzegovina (BH). The BDP helped to promote economic growth by assisting enterprises to expand production, creating employment opportunities for the general population—including 1.2 million refugees and 200,000 demobilized soldiers—while generating income for families and communities. The program targeted small and medium-sized private enterprises and was dedicated to supporting the successful transition to a market-based economy. Typical loans included forestry (logging, sawmills), manufacturing (furniture, metal), agrobusiness (milk products, fruit processing, bread), and construction (building materials, cement).

The BDP created over 15,000 new jobs for Bosnian citizens!

The BDP provided commercial credit in three ways: quick disbursing loans to private businesses; lines of credit to commercial banks; and lines of credit to micro-credit organizations (MCOs). The program ended in 2003 when several locally based banks purchased the loan portfolio.

When the BDP began, foreign reserves were depleted, industrial production was four percent of pre-war levels, the unemployment rate stood at 90 percent, and capital assets had suffered extensive damage. The BH banking system was not in fact a real banking system in the Western sense of the term as transactions

were actually carried out by the country's Payments Bureaus. Loans were short term—for periods of six months to one year maximum—and interest rates were exorbitant.

The creation of the BDP filled an important gap in the banking system. It provided medium and large companies with much-needed capital at a reasonable interest rate and with repayment periods of three to five years. The BDP was instrumental in helping restart production and fueling economic growth at rates higher than Germany experienced during its post-war years. In fact, USAID loan recipients accounted for an impressive 50 percent of all of Bosnia's post-war exports.

During its early years, the BDP also provided valuable consulting assistance leading to the creation of a realistic business plan at no cost to borrowers. Follow-up assistance was provided to improve marketing, financial management, and production skills.

FIRM EXPANSION

During its seven years of existence, the BDP made nearly 600 loans worth \$162 million to Bosnian enterprises eager to expand business activity but lacking working capital and medium-term financing. The vast majority of these firms were privately owned. Of BDP's 473 clients, 97 were repeat borrowers. The growth they achieved with their previous loans enabled them to borrow more and expand even further. In fact, a study by Price-WaterhouseCoopers found that 93 percent of BDP borrowers had experienced growth as a result of their loan.

JOB CREATION

One of the greatest accomplishments of the BDP was the number of jobs it created and sustained. Commercial loans supported new employment for 9,782 Bosnians from all ethnic backgrounds. They also helped sustain another 27,636 jobs. BDP lines of credit created 202 new positions and sustained 3,030 jobs, while support for microcredit organizations (MCOs) enabled the creation of an additional 5,121 new jobs.

The BDP restored confidence in the banking system through training, and funding of deposit insurance.

BDP borrower companies on average employ 10 more employees than they did when they received the loan. This is in contrast with non-borrower companies, where employee levels have fallen by an average of 16.

STRENGTHENED BANKING SYSTEM

The BDP played a significant role in strengthening the Bosnian banking system. In the beginning, the program partnered with local banks to process and disburse the loans. Concurrently, USAID provided intensive training and technical assistance to the banks in areas such as credit analysis, loan collection and problem loan management. The assistance paid off when five banks qualified to receive BDP lines of credit worth approximately \$13 million. The banks assumed all credit risk and demonstrated a base of understanding of credit analysis and management which were lacking when the activity began.

By the end of 2003, the banking system had matured to such a degree that USAID was able to bring the BDP to a close by auctioning off the loan portfolio to locally based banks.

MICROCREDIT SUPPORT

The successful emergence of MCOs in BH offered another opportunity for the BDP to provide financial support, while transferring risk to the financial sector. Six MCO lines of credit were approved totaling KM 11,150 million. The MCOs were fully responsible for selecting and approving project proposals submitted by potential clients. They achieved excellent repayment rates of 97-98%, while lending to such socially vulnerable groups as minority returnees, women, and demobilized soldiers.

EXTENDED BENEFITS

The BDP made a profound impact on the BH economy through the start-up of new companies, provision of jobs, and strengthening of the banking sector. However, the program's reach extended even farther as loan repayments were channeled into other projects.

The BDP helped instill a credit culture that is attracting more foreign investors to Bosnia-Herzegovina.

Chief among the initiatives financed by BDP recycled funds were the creation of Deposit Insurance, which restored confidence in the banking system and increased deposits by 30 percent in its first year. Millions of dollars worth of loan reflows also provided support for agricultural production, bank supervision, privatization, public sector accounting

reform, Central Bank operations and the repair of power and water systems for minority returnees. It is likely that no other single program has had such a profound and positive impact on Bosnia's economic recovery as the BDP.

LESSONS LEARNED

Interestingly, some of the BDP's most positive impacts were the result of its greatest challenges: namely, non-performing loans. Midway into the life of the BDP, BH's inexperience with credit began to emerge in the form of increasing delinquencies. The majority of these were resolved with help from BDP's Special Assets Unit that worked with problem companies to resolve their issues.

However, the program eventually was forced to initiate the first foreclosure action ever seen in Bosnian courts. BDP's successful prosecution of the case was a landmark for Bosnia that helped increase investor confidence that their investments could be protected. As 98 firm foreclosures followed, it became apparent that the country's collateral laws were sorely lacking. In collaboration with the Office of the High Representative, the BDP was able to draw on its experiences to help draft a new law which is scheduled to go into effect in early 2004. The new law, coupled with court precedents set by the BDP, has helped to instill in BH a credit culture that is making the country more attractive to foreign investors.



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